



Fluor Corporation
One Enterprise Drive
Aliso Viejo, California 92656-2606
USA

949.349.3777 tel
949.349.7421 fax
mike.steuert@fluor.com

D. Michael Steuert
Senior Vice President & Chief Financial Officer

April 11, 2005

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

Reference: File Number 4-497 Feedback on Implementation of Sarbanes-Oxley Section 404
Internal Control Requirements

Dear Mr. Katz:

Fluor Corporation is pleased to have the opportunity to provide comments regarding the implementation of the internal control reporting requirements of Sarbanes-Oxley Section 404 (SOX 404). Though we believe SOX 404 has resulted in certain benefits for companies and investors through increased transparency and improved internal controls, our focus herein will be on improvement opportunities of the existing guidance of the Securities and Exchange Commission (SEC) and the Public Company Oversight Board (PCAOB).

We believe that the changes outlined below will reduce the exorbitance of some of the costs associated with the implementation requirements of SOX 404, which are currently highly disproportionate relative to the benefits. We also believe our suggestions will allow companies to better focus on the intent of the legislation, which is to improve the integrity of the financial reporting process.

1. The current testing approach of the independent auditors is too transactional oriented and is not focused enough on company-level controls, such as tone at the top, codes of conduct, and fraud prevention. As a result, the majority of the implementation effort is focused on the transactional controls that, while important, will do little to prevent or detect the type of fraudulent activities that precipitated the Sarbanes-Oxley Act being signed into law.
2. PCAOB Auditing Standard No. 2 (AS2) requires the independent auditor to "perform enough of the testing himself or herself so that the auditor's own work provides the

principal evidence for the auditor's opinion". It also requires the independent auditor perform certain auditing procedures directly without being able to rely on the work of others (e.g., the testing of the control environment and the performance of walkthroughs). We believe AS2 should be revised to allow for greater reliance of work performed by others (e.g., internal audit), provided the existing tests of competence and objectivity are met. We believe that this will eliminate some of the duplicate testing currently performed (first, by companies, then by the independent auditors) and, consequently, will be a more cost effective approach without sacrificing quality or objectivity.

3. We request that the PCAOB reconsider allowing for rotating tests of controls, instead of fully testing controls every year. We believe that "baselining" controls (for example, for IT application controls) is an equally effective, but more cost efficient solution. Annual testing would not be required in instances where the controls have previously been assessed as effective and have not changed.
4. We believe that a more principles-based approach is needed to guide the implementation of SOX 404. Currently, the independent auditors are focused more on compliance with the "rules" as established in AS2 (and within their own firms) and less on determining an appropriate risk-based approach to testing and evaluation of control deficiencies.

The independent auditors are also highly influenced by their expectation that the PCAOB inspectors will be rigid in their interpretation of the auditors' compliance with AS2. This expectation has resulted in the public accounting firms sometimes requiring far more documentation and testing than what would reasonably be expected to be the intent of AS2.

5. Consideration should be given to revising AS2 to provide additional guidance in the following areas:
 - Adequacy of documentation and testing coverage (e.g., as a percent of total revenues, profits, assets),
 - Extent of testing (including, how much testing can be done at interim vs. on a roll forward basis, and whether walkthroughs need to be re-performed at year end if no exceptions were noted earlier in the year and no changes in the control environment have occurred since the interim testing date), and
 - Timing of testing (e.g., how close to year end must testing occur to reduce or eliminate the need for roll forward testing)

The public accounting firms have, up to now, determined the standard in the above areas, sometimes without adequately considering risk over rule compliance.

6. The public accounting firms have prescribed their own quantitative guidelines to help their personnel evaluate the significance of deficiencies. Again, we believe the firms are sometimes too conservative in their interpretation of AS2. In addition, by allowing each firm to establish its own guidelines to determine the significance of deficiencies increases the probability of inconsistent treatment from firm to firm. In summary, these quantitative guidelines should be reexamined.

Thank you again for the opportunity to provide comments related to the implementation requirements of SOX 404. If you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Michael Steuert", written in a cursive style.

D. Michael Steuert